

REPORT

OF

THE AUDITOR-GENERAL

ON

**BUNGOMA COUNTY ASSEMBLY CAR
LOAN AND MORTGAGE FUND**

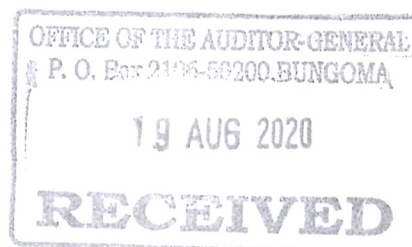
**FOR THE YEAR ENDED
30 JUNE, 2019**

PAPERS LAID	
DATE	16/2/2022
TABLED BY	LEADER OF MAJORITY
COMMITTEE	
CLERK AT THE TABLE	Mr. ADJI BODOU



1777

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019



**BUNGOMA COUNTY ASSEMBLY –CAR LOAN AND MORTGAGE
FUND**

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2019**

Prepared in accordance with the Accrual Basis of Accounting Method under the International Public
Sector Accounting Standards (IPSAS)

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

Article I. TABLE OF CONTENTS

Article I. TABLE OF CONTENTS	1
1. KEY ENTITY INFORMATION AND MANAGEMENT	2
2. LOANS MANAGEMENT COMMITTEE	4
4. FUND CHAIRPERSON'S REPORT	7
5. REPORT OF THE FUND ADMINISTRATOR	8
6. CORPORATE GOVERNANCE STATEMENT	9
7. MANAGEMENT DISCUSSION AND ANALYSIS	12
8. REPORT OF THE LOANS MANAGEMENT COMMITTEE	13
9. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES	14
10. REPORT OF THE INDEPENDENT AUDITOR	15
11. FINANCIAL STATEMENTS	16
11.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 th JUNE 2019	16
11.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019	17
11.3. STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2019	18
11.4. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019..	19
11.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 th JUNE 2019	20
11.6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	21
11.7. NOTES TO THE FINANCIAL STATEMENTS.....	30
12. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS	34

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

1. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

The Bungoma county assembly Car loan and Mortgage scheme is a revolving fund established pursuant to the Salaries and Remuneration Commission (SRC) circular number SRC/TS/WH/3/14 of 14th February 2014. Section 167 of the Public Finance Management (PFM) Act 2012 mandates the administrator of public funds with the preparation of annual financial statements.

For proper management of the fund and as advised by the SRC in the circular under the reference, Bungoma county adopted the PFM regulations 2014 to guide in the operationalization of the fund. The fund is internally administered in the county assembly by the office of the clerk.

The County Assembly Car Loan and Mortgage scheme was set up by the salaries and remuneration commission through circular Ref No. SRC/TS/CGOVT/3/16 of 2013 as a benefit to members of the scheme.

The fund is wholly owned by the county government of Bungoma and is domiciled in Kenya.

b) Principal Activities

The principal activity/mission/ mandate of the fund is to provide car loan and Mortgage to Members of the County Assembly.

c) Loans Management Committee

Ref	Name	Position
1	Hon. James Barasa Mukhongo	Chairperson
2	Hon. Rosemary Nafula Khisa	Vice Chairperson
3	Hon. Jane Cheperenger Ingo	Member
4	Hon. George Makari	Member
5	Hon. Millia Masungu	Member
6	Ms. Rael Nekesa	Member
7	Mr. John Mosongo	Secretary

d) Key Management

No.	Name	Designation
1.	John Mosongo	Fund Administrator
2.	Hon. James Barasa Mukhongo	Chair person
3.	Rael Nekesa Khisa	CASB

e) Bungoma County Assembly Headquarters

P.O. Box 1886 – 50200
Former County Council Building
Moi Avenue

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

Bungoma

f) Entity Contacts

Telephone: 055 (20) 30854, 055 (20) 30309, +254 722 585582

E-mail: bungomacountyassembly@gmail.com or info@bungomaassembly.go.ke

Website: <http://www.bungomaassembly.go.ke>

g) Fund Bankers

1. Bank of Africa
Bungoma Branch
P.O. Box 1066-50200
Bungoma, Kenya
2. Kenya Commercial Bank of Kenya
Bungoma Branch
P.O. Box 201-50200
Bungoma, Kenya

h) Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GPO 00100
Nairobi, Kenya

i) Principal Legal Adviser

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

2. LOANS MANAGEMENT COMMITTEE

The Loans Management Committee during the financial year consisted of:

	Hon. James Barasa Mukhongo- Chairman He was elected MCA Chwele/Kauchai Ward in August 2017. He is the Chairperson Finance and Economic Planning Committee.
	Hon. Rosemary Khisa – Member. She was elected MCA Luuya/Bwake Ward in August 2017 and the Chair Budget and Appropriation Committee in October 2017.
	Hon. Jane Cheperenger Ingo-Member She was nominated MCA in August 2017. She represents women in the Committee.
	Hon. Milliah Masungu She was elected MCA Mihuu Ward in August 2017. She represents women in the Committee.

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

	Hon. George Makari-Member He was elected MCA Musikoma Ward in August 2017. He is a member of Welfare Committee.
	Ms. Rael Nekesa-Member Ms Rael Nekesa was competitively recruited as member representing the public in 2017. She holds a Bachelor's degree in Business Administration from Maseno University and Masters in Project Planning and Management from University of Nairobi.
	John Mosongo –Clerk/Bungoma Mr. Mosongo was seconded by the transition Authority as the Clerk to the Assembly on February 2013. He was later recruited through a competitive process as the Clerk to County Assembly of Bungoma and Secretary to the County Assembly Board on 12th January 2014. He is the CEO and the adviser to the Speaker

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

3. MANAGEMENT TEAM

The management during the financial year consisted of:

	John Mosongo –Fund Administrator Mr. Mosongo was seconded by the transition Authority as the Clerk to the Assembly on February 2013. He was later recruited through a competitive process as the Clerk to County Assembly of Bungoma and Secretary to the County Assembly Board on 12th January 2014. He is the CEO and the adviser to the Speaker. Mr. Mosongo holds a Bachelor of Arts Degree from University of Nairobi. He has undertaken a Senior Management Course and Strategic Leadership Course offered by the Kenya School of Government. Mr. Mosongo is a member of the Labour relations at the Society of Clerks at the Table (SOCATT
	Hon. James Barasa Mukhongo- Chairman He was elected MCA Chwele/Kabuchai Ward in August 2017.He is the Chairperson Finance and Economic Planning Committee.
	Ms. Rael Nekesa-CASB Member Ms Rael Nekesa was competitively recruited as member representing the public in 2017. She holds a Bachelor's degree in Business Administration from Maseno University and Masters in Project Planning and Management from University of Nairobi.

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

4. FUND CHAIRPERSON'S REPORT

It is my pleasure to present, on behalf of the Loans Management Committee, the County Assembly of Bungoma Car Loan and Mortgage Scheme fund financial statements for the year ended 30th June 2019. The financial statements present the financial performance of the fund over the past year.

Sustainability

The fund and its stakeholders are increasingly emphasizing on the need to ensure sustainability for both its investments and its resource mobilization and financing capabilities with an objective of ensuring that the fund's going concern is secured.

Review of performance

Income

The fund earned revenues amounting to KShs. 7,368,980 revenues from exchange transactions. Overall income increased by 17%.

Expenditures

The total expenditures during the period amounted to KShs. 8,524,432 out of which the Committee expenses amounted to KShs 8,447,800 and other expenses (Bank Charges) amounted to KShs.76,632.60 representing 99% and 1% of total expenditures respectively.

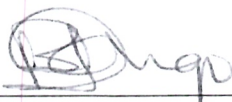
Future outlook

The outlook of the Fund for 2019/2020 looks brighter. The fund focus is looking to build a robust and sustainable fund with a motivated workforce and structures that enhance efficiency and effectiveness in the service delivery. The fund looks forward to continued support from the county government to the realization of its mandate.

Appreciation

I take this opportunity to express my sincere gratitude and appreciation to the county government, stakeholders, management, staff and fellow members of the committee for their continued support which made us achieve these results.

I look forward to your continued support in the year 2019/2020.

Signed:  _____

Hon. James Barasa Mukhongo
Loan Management Committee Chairperson

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

5. REPORT OF THE FUND ADMINISTRATOR

It is my pleasure to present the County Assembly of Bungoma car loan and Mortgage Scheme financial statements for the year ended 30th June 2019. The financial statements present the financial performance of the fund over the past year.

Financial Performance

a) Revenue

In the year ended 30th June 2019, the fund was able to realise KShs 7,368,980 in actual revenues.

b) Loans

During the financial year 2018/2019, the fund disbursed 59 new loans. Total amount of loans disbursed during the financial year amounted to Kshs. 97,078,635.

c) Cash flows

There was a slight increase in cash and cash equivalents from KShs 4,259,347 as at 30 June 2018 to KShs 4,973,973 as at 30 June 2019. There was significant cash outflow and inflow as a result of disbursements and repayments by members. There was a reduction in loan disbursements from financial year 2018/2019 which amounted to Kshs. 102,273,477 as compared to financial year 2017/2018 where total amount disbursed amounted to Kshs. 211,550,000.

The total amount for repayment of loans for financial year 2018/2019 amounted to Kshs. 67,946,106 which is an increase compared to financial year 2017/2018 where total loan repayment amounted to Kshs. 51,094,153.

d) Conclusion

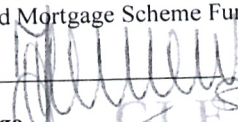
FY 2018/2019 was a good year in general. Good progress was made and the momentum has been created to enable County Assembly of Bungoma Car Loan and Mortgage Scheme Fund continues on a trajectory into prosperity. We have identified gaps and areas to improve on in the subsequent years.

I take this opportunity to thank the Loans Management Committee for their support. I would also want to thank all staff who we have worked hand in hand to ensure that County Assembly of Bungoma Car Loan and Mortgage Scheme Fund achieves its mission.

Signed: _____

John Ongwae Mosongo

Fund Administrator


CLERK
BUNGOMA COUNTY ASSEMBLY
P. O. Box 1886-500
BUNGOMA

6. CORPORATE GOVERNANCE STATEMENT

THE COMMITTEE

The Bungoma county assembly car loan and mortgage scheme is a revolving fund established pursuant to the Salaries and Remuneration Commission (SRC) circular number SRC/TS/WH/3/14 of 14th February 2014 Section 167 of the Public Finance Management (PFM) Act 2012. Its mandate is to provide car loans and mortgage to Members of County Assembly. The fund is committed to ensuring compliance with regulatory and supervisory corporate governance requirements. Essential to the establishment of a corporate governance framework in the fund is a formal governance structure with the Loans Management Committee at its apex. The operations of the fund are governed by the Members Car Loan and Mortgage regulations made on 26th April, 2014. The structure is designed to ensure an informed decision making process based on accurate reporting to the board.

THE LOANS MANAGEMENT COMMITTEE

The Car Loan and Mortgage Regulations 2014 provide that the Loans Management Committee shall consist of Chairman (Finance & Economic Planning) as the chairperson of the Committee, one member(Budget & Appropriation Committee), one member(CASB) ,one member (Welfare Committee), two members of the county assembly (Women Representation) and Clerk of the County Assembly. The Committee is responsible for the long-term strategic direction of the fund and recruitment of the Fund Administrator and senior management. The Committee exercises leadership, enterprise, integrity and judgment in directing the Fund.

The committee members are provided with full, appropriate and timely information that enables them to maintain full and effective control over the strategic, financial, operational and compliance issues. The day-to-day running of the operations of the fund is delegated to the fund administrator but the Committee is responsible for establishing and maintaining the fund's system of internal controls for the realization of its mandate of providing Car loan and mortgage to members of the scheme.

All members of the Loans Management Committee have been taken through a comprehensive induction programme, and are adequately trained on their roles as Committee members. The members are professional, committed and guided by the mission, vision and core values of the Fund in execution of their duties.

LOANS MANAGEMENT COMMITTEE MEETINGS

The meeting of the committee shall be convened by the chairperson or on his/her absence, by a member designated as the chairperson and shall be convened at such times as may be necessary for discharge of Committee's functions. The quorum for meetings shall be the chairperson and any three members.

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

STATEMENT OF CORPORATE GOVERNANCE (Continued)

AUDIT AND RISK COMMITTEE

In ensuring that corporate governance and integrity is enhanced in between the governance of the fund, the Loans Management Committee engages an audit and risk committee established by County Assembly Service Board. The audit and risk committee advises the Loans Management Committee on institutional risk management and compliance. The members of this committee during the year under review were:

S/No.	Name	Position in committee
1	Mr. Calistus Wekesa Waswa	Chairman Audit committee
2	Dr. Destaings N. Nyongesa	Member Audit committee
3	CPA Jackson Wetosi	Member Audit committee
4	Mrs. Diana Khaemba	Member Audit committee
5	Mr. Alfred Makokha	Secretary Audit committee

STATEMENT OF COMPLIANCE

The Loans Management Committee confirms that the fund has throughout the FY2018/2019 complied with all statutory and regulatory requirements and that the fund has been managed in accordance with the principles of good corporate governance.

The fringe benefit tax is expected to be paid by the employer (County Assembly Service Board).

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Control

The Loans Management Committee is responsible for reviewing the effectiveness of the fund's system of internal control which is designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorized use or disposition and the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable and not absolute assurance against material misstatement or loss.

Internal Control Framework

The fund continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. Business processes and controls are reviewed on an ongoing basis. A risk-based audit plan, which provides assurance over key business processes and operational and financial risks facing the fund, is approved by the audit and risk committee.

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

STATEMENT OF CORPORATE GOVERNANCE (Continued)

The audit and risk committee considers significant control matters raised by management and both the internal and external auditors and reports its findings to the Committee. Where weaknesses are identified, the committee ensures that management takes appropriate action. No significant failings or weaknesses were identified during the FY 2018/2019.

Risk Management

The fund has in place a risk management framework which guides the fund in identifying, assessing and managing the risks. The fund has developed a risk register which documents and prescribes mitigating measures of all the risks both external and internal facing the fund. The risk management framework and register are regularly reviewed to incorporate any emerging issues in the operating environment. The risk management is coordinated by the head of internal audit, who reviews all the risks in the fund and updates the risk register and ensures that all new and emerging risks are appropriately evaluated and any further actions identified. The identified risks are reported to the audit and risk committee to assist the Loans Committee in the management of risks.

Management Team

The management team headed by the Fund Administrator implements the Loans Management Committee decisions and policies through action plans. The team meets regularly to review these action plans to ensure that the Committee's objectives are achieved effectively and efficiently.

Auditor

The fund is audited by the Auditor-General.

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

7. MANAGEMENT DISCUSSION AND ANALYSIS

The fund has continued to grow over the years and the management has put measures in place to safeguard against risks. The fund's activities expose it to a variety of financial risks including credit and liquidity risks. The Fund's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Fund does not hedge any risks and has in place policies to ensure that credit is only extended to members with an established credit history.

BUSINESS PERFORMANCE

Revenue

The fund earned revenues amounting to KShs. 7,368,980 from exchange transactions.

The fund remained liquid throughout the year though it experienced low liquidity towards the end of the financial year due to loan disbursements to new applicants. The fund is projecting increased support from the county government.

Cash flow

There was a slight increase in cash and cash equivalents from KShs 4,259,347 as at 30 June 2018 to KShs 4,973,973 as at 30 June 2019. There was significant cash outflow and inflow as a result of disbursements and repayments by members.

OPERATIONAL PERFORMANCE

The fund's core operating activity has been the offering car loans and mortgage to Members of County Assembly. The county government has supported the fund and increased collections from members of County Assembly have also added to the fund's better performance.

Conclusion

We appreciate the unrelenting support from the Loans Management Committee, staff, the county government and all the key stakeholders. We look forward to the continued partnerships and cooperation in areas of mutual interest in the FY 2019/2020.

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

8. REPORT OF THE LOANS MANAGEMENT COMMITTEE

The Committee submits its report together with the audited financial statements for the year ended June 30, 2019 which show the state of the Fund affairs.

Principal activities

The principal activity of the Fund is to provide financing to the Members of County Assembly to purchase cars and Construct houses.

Results

The results of the Fund for the year ended June 30, 2019 are set out on pages 16 to 33.

Committee Members

The members of the Loans Management Committee who served during the year are shown on page 4 & 5. There were no changes in the Committee during the FY 2018/19.

Auditors

The Auditor General is responsible for the statutory audit of the Fund in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Committee

Ms. Rael Nekesa Khisa

Member of the Committee

Date: 30/06/2019

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

9. STATEMENT OF MANAGEMENT’S RESPONSIBILITIES

Section 167 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Administrator of a County Public Fund shall prepare financial statements for the Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Administrator of the County Public Fund is responsible for the preparation and presentation of the Fund’s financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

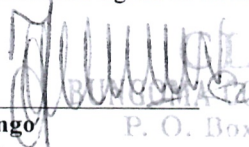
The Administrator of the County Public Fund accepts responsibility for the Fund’s financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012. The Administrator of the Fund is of the opinion that the Fund’s financial statements give a true and fair view of the state of Fund’s transactions during the financial year ended June 30, 2018, and of the Fund’s financial position as at that date. The Administrator further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund’s financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the Administrator of the County Public Fund has assessed the Fund’s ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the Administrator to indicate that the Fund will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

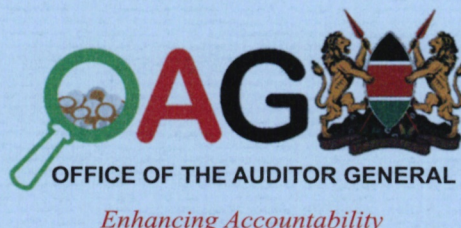
The Fund’s financial statements were approved by the Loans Management Committee on 30/06 2019 and signed on its behalf by:

John Ongwae Mosongo
Fund Administrator


CLERK
BUNGOMA COUNTY ASSEMBLY
P. O. Box 1886-50200,
BUNGOMA.

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON BUNGOMA COUNTY ASSEMBLY CAR LOAN AND MORTGAGE FUND FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Bungoma County Assembly Car Loan and Mortgage Fund set out on pages 16 to 35, which comprise of the statement of financial position as at 30 June, 2019, statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Bungoma County Assembly Car Loan and Mortgage Fund as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis), Public Finance (County Assembly Car Loan (Members) Scheme Fund) Regulations, 2018, and comply with the Public Financial Management Act, 2012.

Basis for Qualified Opinion

Cash and Cash Equivalents

The statement of financial position and Note 4 to the financial statements reflects cash and cash equivalents balance of Kshs.4,973,973 which was the bank balance as at 30 June, 2019. However, a review of the bank reconciliation statements revealed that the Management used the bank certificates balances for the three (3) bank accounts instead of the reconciled cash book balances totalling Kshs.10,598,566, resulting into an unreconciled variance of Kshs.5,624,893 as tabulated below;

Bank Name	Account No.	Reported Balance (Kshs.)	Reconciled Balance (Kshs.)	Variance (Kshs.)
Kenya Commercial Bank	1220563730	4,958,866	4,958,866	-
Bank of Africa	2624950004	6,260	250,000	243,740
Bank of Africa	2624950017	8,847	5,390,000	5,381,153
		4,973,973	10,598,566	5,624,893

In the circumstances, it was not possible to confirm that the cash and cash equivalents balance of Kshs.4,973,973 as at 30 June, 2019 was fairly stated.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Bungoma County Assembly Car Loan and Mortgage Fund Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Non-Current Receivables

1.1 Lack of Security on Loan Disbursed to Members

Examination of records provided for audit review revealed that, the long term loan repayments due totalling Kshs.276,955,516 under Note 5(b) to the financial statements, include a balance of Kshs.255,155,516 for both car loan and mortgages which were not secured with registration of logbooks and title deeds on joint ownership of the acquired assets contrary to Regulation 8(2) of the Public Finance (County Assembly Car Loan (Members) Scheme Fund) Regulations, 2018 that requires the log-book of a vehicle

subject to a loan from the Fund to be issued jointly between the County Assembly and the member of the Scheme and be kept in the custody of the officer administering the Fund until the loan is repaid in full by the member of the Scheme.

Further, the Fund failed to adhere to Regulation 15(1) of the Public Finance Management (County Assembly Mortgage (Members) Scheme Fund) Regulations, 2018, which requires the Fund to have a charge registered on the property financed through a loan granted and its name entered in all documents of title for such property.

1.2 Un-recovered Loan Arrears

It was noted that included in the long term loan repayments due of Kshs.276,955,516 under Note 5(b) in the financial statements was a non-recovered amount of Kshs.33,900,825 relating to loans advanced to members of the first County Assembly who did not make it to the current parliament. It was noted that no progress had been made to initiate recovery of the outstanding loans held by former members in absence of formal security documentation.

Consequently, the Fund was not in compliance with Regulation 12 of the Public Finance (County Assembly Car Loan (Members) Scheme Fund) Regulations, 2018 which states that a loan advanced shall be repaid in full over a maximum period of sixty (60) months and Regulation 13 (1) of the Public Finance Management (County Assembly Mortgage (Members) Scheme Fund) Regulations, 2018 which states that a loan granted shall be fully repaid at the end of the term of that Assembly.

In the circumstances, it was not possible to ascertain the recoverability of the loan balance of Kshs.33,900,825 reported as at 30 June, 2019.

2. Lack of an Approved Budget

Review of the Fund's loan management committee minutes and financial statements for the year under review revealed that operation of the Fund was not guided by an approved budget. Therefore, administration of the Fund was not conducted in compliance with Section 149(2h) of the Public Finance Management Act, 2012, which requires the accounting officer to prepare estimates of expenditure of the entity in conformity with the strategic plan.

In the circumstances, the Fund conducted its business during the year under review in breach of the law.

3. Outstanding Borrowings by County Assembly Service Board

The statement of financial position of the Fund reported a figure of Kshs.37,331,966 under current portion of long term receivables from exchange transactions, included in this balance is Kshs.36,722,914 in respect of un-refunded borrowings by the County Assembly Service Board as under Note 5(a) which is in contravention of Regulation 4 of both the Public Finance Management (County Assembly Members Car Loan Scheme Fund) Regulations, 2018 and the Public Finance Management (County Assembly Members Mortgage Fund) Regulations, 2018 which states that the object and purpose of the Fund is to provide a loan scheme for the purchase of vehicles by members of the

scheme and for the purchase, development, renovation or repair of residential property by members of the scheme, respectively.

4. Non Recovery and Remittance of Fringe Benefit Tax

It was noted that the Fund did not remit to Kenya Revenue Authority (KRA) fringe benefit tax accrued from the low interest loans extended to its members during the year amounting to Kshs.2,947,592 as tabulated below.

Interest @ 3% P.A (Kshs.)	Interest at KRA Prescribed Rate @ 7% P.A (Kshs.)	Taxable Fringe Benefit (Kshs.)	FBT @ 30% (Kshs.)
7,368,980	17,194,287	9,825,307	2,947,592

Thus, the Management of the Fund did not comply with Section 12(B1) of the Income Tax Act, 2010 that requires an employer to pay fringe benefit tax in respect of a loan provided to an employee or director at an interest rate lower than the market interest rate. Further, the administrator was in contravention of Section 12(3) of the Act which requires fringe benefit tax to be charged on the total taxable value of a fringe benefit provided by an employer in a month and remitted on or before the tenth day of the following month to KRA.

Consequently, the Fund is exposed to penalties and interest due to non-compliance with provisions of the Income Tax Act.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis of Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Board's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to terminate the Board or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Board's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in

compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Board to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Board to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

17 December, 2021

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

11. FINANCIAL STATEMENTS

11.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30th JUNE 2019

	Note	FY2018/2019	FY2017/2018
		KShs	KShs
Revenue from exchange transactions			
Interest income	1	7,368,980	3,773,680
Other income	2	-	2,547,640
Total revenue		7,368,980	6,321,320
Expenses			
General expenses	3	8,524,432	5,285,939
Total expenses		8,524,432	5,285,939
Surplus/(deficit) for the period		1,155,451	1,035,382

The notes set out on pages 30 and 33 form an integral part of these Financial Statements

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

11.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Note	FY2018/2019	FY2017/2018
		KShs	KShs
Assets			
Current assets			
Cash and cash equivalents	4	4,973,973	4,259,347
Current portion of long term receivables from exchange transactions	5A	37,331,966	73,529,415
Non-current assets			
Long term receivables from exchange transactions	5B	276,955,516	242,628,145
Total assets		319,261,455	320,416,907
Net assets			
Revolving Fund		315,000,000	315,000,000
Accumulated surplus		4,261,455	5,416,907
Total net assets and liabilities		319,261,455	320,416,907

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30/06 2019 and signed by:

Administrator of the Fund
 Name: John Ongwae Mosongo

CLERK
 BUNGOMA COUNTY ASSEMBLY
 P. O. Box 1000-50200,
 BUNGOMA.

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

11.3. STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2019

	Revolving Fund	Accumulated surplus	Total
		KShs	KShs
Balance as at 1 July 2017	315,000,000	4,381,525	319,381,525
Surplus/(deficit) for the period	-	1,035,382	1,035,382
Balance as at 30 June 2018	315,000,000	5,416,907	320,416,907
Balance as at 1 July 2018	315,000,000	5,416,907	320,416,907
Surplus/(deficit) for the period	-	1,155,451	1,155,451
Balance as at 30 June 2019	315,000,000	4,261,455	319,261,455

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

11.4. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	Note	FY2018/2019	FY2017/2018
		KShs	KShs
Cash flows from operating activities			
Receipts			
Interest received	1	7,368,980	3,773,680
Receipts from other operating activities	2	-	2,547,640
Total Receipts		7,368,980	6,321,320
Payments			
General expenses	3	8,524,432	5,285,939
Total Payments		8,524,432	5,285,939
Cash flows from operating activities		(1,155,452)	1,035,382
Adjustments;			
Debtors Borrowings	5A	(26,880,000)	(23,537,226)
Debtors Repayments	5A	63,686,501	49,069,380
Interest Receivable	5A	(609,052)	
		36,197,449	25,532,154
Net Cash flows from Operating Activities		35,023,602	26,567,535
Cash flows from investing activities			
Proceeds from loan principal repayments	5B	62,769,660	51,094,153
Loan disbursements paid out	5B	(97,078,635)	(211,550,000)
Insurance	5B	-	(21,800,000)
Net cash flows used in investing activities		(34,308,976)	(182,255,847)
Net increase/(decrease) in cash and cash equivalents		714,626	(155,688,312)
Cash and cash equivalents at 1 JULY	4	4,259,347	159,947,659
Cash and cash equivalents at 30 JUNE	4	4,973,973	4,259,347

(IPSAS 2 allows an entity to present the cash flow statement using the direct or indirect method but encourages the direct method. PSASB also recommends the use of direct method of cash flow preparation. The above illustration assumes direct method)

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND**Reports and Financial Statements****For the year ended June 30, 2019****11.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30th JUNE 2019**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilisation
	2019	2019	2019	2019	2019	2019
Revenue	KShs	KShs	KShs	KShs	KShs	
Interest income	3,770,591	-	3,770,591	7,368,980	(3,598,389)	195%
Other income	2,547,640	-	2,547,640	-	2,547,640	0%
Total income	6,318,232	-	6,318,232	7,368,980	(1,050,749)	117%
Expenses						
General expenses	6,318,232	-	6,318,232	8,524,432	(2,206,200)	135%
Total expenditure	6,318,232	-	6,318,232	8,524,432	(2,206,200)	135%
Surplus for the period	-	-	-	1,155,451	1,155,451	

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

11.6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance and basis of preparation

The Fund's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Fund. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

2. Adoption of new and revised standards

The entity did not adopt any new or amended standards in year 2019.

3. Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

ii) Revenue from exchange transactions

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND

Reports and Financial Statements

For the year ended June 30, 2019

4. Budget information

- (a) The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section 12.5 of these financial statements.

5. Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-maturity

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or a entity of financial assets is impaired. A financial asset or an entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or an entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Entity determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

6. Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements.

7. Changes in accounting policies and estimates

The Entity recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

8. Related parties

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the Fund Administrator and the Fund Accountant.

9. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash Imprest and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

10. Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

11. Events after the reporting period

There were no material adjusting and non- adjusting events after the reporting period.

12. Ultimate and Holding Entity

The entity is a County Public Fund established by Section 167 of the Public Finance Management (PFM) Act 2012. Its ultimate parent is the ABC county assembly.

13. Currency

The financial statements are presented in Kenya Shillings (Kshs).

14. Financial risk management

The Fund's activities expose it to a variety of financial risks including credit and liquidity risks. The Fund's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Fund does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The Fund's financial risk management objectives and policies are detailed below:

a) Credit risk

The Fund has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

Management assesses the credit quality of each member, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Total amount KShs	Fully performing KShs	Past due KShs
At 30 June 2019			
Receivables from exchange transactions	314,287,482	316,157,560	-
Bank balances	4,973,973	4,259,347	-
Total	319,261,455	319,261,455	-
At 30 June 2018			
Receivables from exchange transactions	316,157,560	316,157,560	-
Bank balances	4,259,347	4,259,347	-
Total	320,416,907	320,416,907	-

The members under the fully performing category are paying their debts. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The Loans Management Committee sets the Fund's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND

Reports and Financial Statements

For the year ended June 30, 2019

b) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Fund Administrator, who has built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the Fund under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month	Between 1-3 months	Over 3-5 months	Total
	KShs	KShs	KShs	KShs
At 30 June 2019				
Current portion of borrowings	-	-	36,722,914	36,722,914
Total	-	-	36,722,914	36,722,914
At 30 June 2018				
Current portion of borrowings	-	-	73,529,415	99,061,569
Total	-	-	99,061,569	99,061,569

c) Market risk

The Loans Management Committee has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The Fund's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

➤ **Interest rate risk**

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the Fund to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Fund's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates

d) Capital risk management

The objective of the Fund's capital risk management is to safeguard the Fund's ability to continue as a going concern. The entity capital structure comprises of the following funds:

	2019	2018
	KShs	KShs
Revolving fund	320,416,907	319,381,525
Accumulated surplus	-1,155,451	1,035,392
Total funds	320,416,917	320,416,917

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

Total borrowings	97,078,635	211,550,000
Less: cash and bank balances	4,973,973	4,259,347
Net debt/(excess cash and cash equivalents)	92,104,662	207,290,653
Gearing	29%	65%

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

11.7. NOTES TO THE FINANCIAL STATEMENTS

1. Interest income

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Interest income from loans(mortgage or car loans)	7,368,980	3,773,680
Total interest income	7,368,980	3,773,680

2. Other income

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Miscellaneous income (Bank Interest)	-	2,547,640
Total other income	-	2,547,640

3. General expenses

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Hospitality (Allowances)	8,447,800	4,358,600
Other expenses-Bank Charges	76,632	927,339
Total	8,524,432	5,285,939

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

4. Cash and cash equivalents

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Current account	4,973,973	4,259,347
Total cash and cash equivalents	4,973,973	4,259,347

Detailed analysis of the cash and cash equivalents are as follows:

	FY2018/2019	FY2017/2018
Financial institution	KShs	KShs
Current account		
Kenya Commercial bank ACC. No.1220563730	4,958,866	4,244,240
Bank Of Africa 02624950007	6,260	6,260
Bank Of Africa 02624950017	8,847	8,847
Grand total	4,973,973	4,259,347

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

5. Receivables from exchange transactions

Description	FY2018/2019	FY2017/2018
	KShs	KShs
5A. Current Receivables		
Balance brought forward	73,529,415	99,061,569
Add:-Debtors borrowings	26,880,000	23,537,226
Less:-Debtors repayments	(63,686,501)	(49,069,380)
Current loan repayments due-CASB Borrowings	36,722,914	73,529,415
Interest receivable	609,052	-
Total Current receivables	37,331,966	73,529,415
5B. Non-Current receivables		
Balance brought forward	220,828,145	60,372,297
Add:-Loan disbursements paid out	97,078,635	211,550,000
Less:-Proceeds from loan principal repayments	(62,769,660)	(51,094,153)
Long term loan repayments due	255,155,516	220,828,145
Other exchange debtors-Insurance Receivable	21,800,000	21,800,000
Total Non-current receivables	276,955,516	242,628,145
Total receivables from exchange transactions	314,287,482	316,157,550

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

➤ **Basis of Non-Current Receivables Brought Forward**

2018/19	
Bal b/f	220,828,145
<i>Loan issues</i>	
Previous loan offset-Old loans for Current MCA's	5,194,842
Additional issues-Current MCA's	97,028,636
Cash issue	50,000
	102,273,477
<i>Repayments</i>	
Old loans (Offset plus Cash Deposits)	6,257,027
Current Loans	61,689,078
	67,946,106
Outstanding Balance 2018-19	255,155,516

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

12. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
Lack of Security on Loans Disbursed to Members	It was noted that the loans totaling to Kshs.220,828,145 disbursed to members and remained outstanding as at 30 June 2018 for both car loan and mortgages were not secured by having registration of joint ownership of the acquired assets contrary to regulations which require joint registration of ownership and placing the title document in custody of fund administration. Therefore, the Fund contravened Regulation 8(2) of the Public Finance (County Assembly Car Loan (Members) Scheme Fund) Regulations, 2018 that requires the log-book of a vehicle subject to a loan from the Fund to be issued jointly between the County Assembly and the member of the Scheme and be kept in the custody of the officer administering the Fund until the loan is repaid in		Fund Administration Committee	On-going	

Comment [G001]: Figure amended to agree to the reported outstanding loans at year end as the Fund had not secured all the loans

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	full by the member of the Scheme. In addition, the Fund failed to adhere to Regulation 15(1) of the Public Finance Management (County Assembly Mortgage (Members) Scheme Fund) Regulations, 2018 requires that the Fund to have a charge registered on the property financed through a loan granted and its name entered in all documents of title for such property as well as log books.				
2.Un-recovered Loan Arrears	The long term receivables from exchange transactions balance of Kshs.242,628,145 comprises long term loan repayments due and other exchange debtors of Kshs.220,828,145 and Kshs.21,800,000 respectively. However, it was noted that included in the long term loan repayments due is a non-recovered amount of Kshs.33,900,825 relating to loans advanced to members of the first county assembly who were not re-elected in 2017. Further, it was noted that no progress had been made to initiate recovery of the		Fund Administrator	Resolved	

Comment [G002]: Figure aligned to the financial statement balance in the Amended FS

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	outstanding loans held by former MCAs in absence of formal security documentation. Consequently, the Fund was not in compliance with the Salary Review Commission circular Ref. SRC011/11/2013 which directed for the MCAs car loan and Mortgage cash advances to be fully repaid within five (5) years or before the end of the term of office, whichever is earlier. Consequently, it was not possible to ascertain the recoverability of the loans balance of Kshs.33,900,825 as at 30 June 2018.				
3. Lack of an Approved Budget	Review of the Fund's loan management committee minutes and financial statements for the year under review revealed that operation of the Fund were not guided by an approved budget. Therefore, administration of the Fund was not conducted in compliance with Section 149(2h) of the Public Finance Management Act, 2012, which requires the accounting officer to prepare estimates of expenditure of the entity in conformity with the		Fund Administration Committee	On-going	

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	strategic plan. In addition, the Fund was exposed to risk of over and underutilization and misapplication of the funds.				
4.Outstanding Borrowings by County Assembly Service Board	The statement of the financial position of the Fund reported a figure of Kshs.73,529,415 in respect of unrefunded borrowings by the County Assembly Service Board under receivables from exchange transactions in contravention of Regulation 4 of both the Public Finance Management (County Assembly Members Car Loan Scheme Fund) Regulations, 2018 and the Public Finance Management (County Assembly Members Mortgage Fund) Regulations, 2018 which states that the object and purpose of the fund is to provide a loan scheme for the purchase of vehicles by members of the scheme and for the purchase, development, renovation or repair of residential property by members of the scheme.		Fund Administrator	Resolved	
5.Failure to Remit Fringe Benefit Tax	It was noted that the Fund had not remitted to Kenya Revenue Authority (KRA) fringe benefit tax accrued from the low interest loans extended to its		Fund Administrator	Not Resolved	

BUNGOMA COUNTY ASSEMBLY – CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designati on)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	members since its inception to end of June 2018 and amounting to Kshs.11,171,365. Thus, the management of the Fund did not comply with the section 12(B1) of the Income Tax Act, 2010 that requires an employer to pay fringe benefit tax in respect of a loan provided to an employee or director at an interest rate lower than the market interest rate. Further, the administrator was in contravention of Section 12(3) of the Act which requires that fringe benefit tax to be charged on the total taxable value of a fringe benefit provided by an employer in a month and remitted on or before the tenth day of the following month to KRA. Consequently, the Fund is exposed to penalties and interest due to non-compliance with provisions of the Income Tax Act, 2010.				